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G&B Automated Equipment Limited



Annual Report 1969



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Officers and Directors

Robert E. Budai, <i>President and Director</i>	Toronto, Ontario
Frederick D. O'Connor, <i>Secretary and Director</i>	Toronto, Ontario
Zigmund A. Hahn, <i>Director</i>	Toronto, Ontario
Thomas P. Kalman, <i>Director</i>	Toronto, Ontario
Dr. Francis E. Kristof, <i>Director</i>	Westmount, P.Q.
Philip R. McDowell, <i>Vice-President, Engineering</i>	Toronto, Ontario
Rudolph G. Koster, <i>Vice-President, Manufacturing</i>	Toronto, Ontario
Peter T. Clark, <i>Vice-President, Marketing</i>	Nobleton, Ontario
Leslie O. Hidas, <i>Treasurer</i>	Toronto, Ontario



Transfer Agent

The Royal Trust Company
119 Adelaide Street West, Toronto 1, Ontario

Auditors

Drysdale, Harris and Plowman
Toronto, Ontario

Head Office

580 Supertest Road, Downsview, Ontario, Canada

Report of the Directors

To the Shareholders :

As predicted in last August's interim report to shareholders, 1969 has been a record year for your Company in terms of both sales and earnings. Sales were \$1,086,107 in 1969, compared to \$960,548 in 1968, and earnings have increased from \$103,859 in 1968 to \$123,505 in 1969, representing an increase in earnings per share of twenty per cent from 20¢ per share in 1968 to 24¢ per share in 1969. More important, business continues to be brisk and our current factory orders, which very substantially exceed the figures for the same period last year, indicate that new records will again be achieved in 1970.

The past twelve months have seen some profound changes in the nature and scope of the Company's activities which will form the basis for what I confidently expect will be a dramatic increase in corporate activities through 1971 and subsequent periods. In an effort to describe more clearly the implications stemming from your Company's diversification programme, I will summarise the more important divisional activities.

THE STEEL INDUSTRY

Steel slabs and billets, prior to rolling and shaping, require surface conditioning to remove scale and structural imperfections. The alloy steel industry which represents some 5% of total steel production employs grinding techniques while the remaining 95% of the industry engaged in carbon steel production generally uses blow-torching. As a result of recent developments in the grinding wheel industry, new super-speed wheels are now available for the economic conditioning of carbon steel which promise significant advantages over the blow-torching method. G & B has recently developed, with the financial assistance of the Government of Canada's PAIT programme, a new steel conditioning machine which is capable of utilising the new super-speed wheels (in carbon steel application). Our own market studies indicate that the conversion of the carbon steel industry from blow-torching to grinding over the next ten years could represent a market for this type of machine together with related handling equipment in the order of one billion dollars.

We at G & B believe that our machine when introduced to the market during the last quarter of 1970 will represent the most advanced equipment of this type in the world, and we expect, over a period of time, to obtain a significant portion of this new market.

Our marketing programme will be materially enhanced through an association we are now negotiating with the largest supplier of steel conditioning abrasives in the United States. The agreement contemplates the creation of a consortium which will offer complete steel conditioning systems to the industry built around G & B machines. Such an association will enable the Company to obtain immediate recognition by major steel producers throughout the world.

THE BONDED ABRASIVE INDUSTRY

The Company produces some 24 automated machine tools, ranging in price from \$10,000 to \$150,000, which are used to automate the many complex steps in the production of a wide variety of modern high-speed grinding wheels and related abrasive products. Approximately 95% of the Company's production is exported. Although the United States has traditionally been the Company's largest market, rising labour costs in the bonded abrasive industry and the need for improved precision products have resulted in an accelerated rate of overseas sales. Australasia (Japan, Australia, Taiwan and Southeast Asia) is now the Company's second largest market and we have recently established a European sales organisation with an eventual view to assembling machines in Western Europe to service what promises to be a larger market than the United States.

TURN KEY PROJECTS

The company has recently concluded a "Teaming" agreement with Bay State Abrasive Products (Canada) Ltd., a wholly owned subsidiary of the Avco Corporation for the design and construction of complete grinding wheel manufacturing plants known as Turn Key projects. This programme has its most immediate application with Eastern European nations and major abrasive companies in Japan and will provide great potential for the sale of G & B equipment.

FINANCIAL

In order to finance the new divisional activities your Company recently concluded a private placement of shares and debentures in the amount of some \$900,000 (which is fully described in the attached information circular) with CN Investment Division on behalf of the Canadian National Railways Pension Fund. Your Board of Directors are extremely pleased with the Company's association with such a senior financial institution and the opportunity it provides to help accomplish our longer term objectives.



On behalf of the Board,

ROBERT E. BUDAI, *President*

Toronto, Ontario, April 29, 1970.

Balance Sheet — December 31, 1969

(with comparative figures as at December 31, 1968)

Assets

	1969	1968
CURRENT ASSETS		
Cash	575	405,643
Accounts receivable (note 1)	395,372	219,043
Due from Government of Canada (note 2)	176,319	82,106
Inventory — raw materials and work in progress at lower of factory cost or net realizable value	167,105	72,391
Prepaid expenses	7,733	5,480
	<u>747,104</u>	<u>784,663</u>
LONG TERM ASSETS		
Accounts receivable (note 3)	104,900	
FIXED ASSETS, At Cost		
Plant, equipment and furnishings	142,085	55,115
Less: Accumulated depreciation	47,713	28,016
	<u>94,372</u>	<u>27,099</u>
OTHER ASSETS (note 4)		
Research and development, unamortized	578,559	178,111
Deferred development expenses	31,414	
Organization costs	20,088	20,088
	<u>630,061</u>	<u>198,199</u>
	<u><u>\$1,576,437</u></u>	<u><u>\$1,009,961</u></u>

Approved on behalf of the Board:

ROBERT E. BUDAI, *Director*

FREDERICK D. O'CONNOR, *Director*

Auditors' Report

To the Shareholders of G & B Automated Equipment Limited

We have examined the accompanying balance sheet of G & B Automated Equipment Limited as at December 31, 1969, the statements of retained earnings, income and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

- (a) The accompanying balance sheet presents fairly the financial position of the Company as at December 31, 1969.
- (b) The accompanying statements of earnings and retained earnings presents fairly the results of operations of the Company for the year ended December 31, 1969.
- (c) The accompanying statement of source and application of funds presents fairly the source and disposition of funds for the year ended December 31, 1969.

all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DRYSDALE, HARRIS AND PLOWMAN, *Chartered Accountants*


Toronto, Canada, February 9, 1970

Balance Sheet — December 31, 1969
(with comparative figures as at December 31, 1968)

	Liabilities	
	1969	1968
CURRENT LIABILITIES		
Bank advances	66,649	
Accounts payable and accrued charges	309,159	122,425
Customers' advances on contracts	35,725	93,237
	<u>411,533</u>	<u>215,662</u>
LONG TERM LIABILITY		
Government of Canada — PAIT assistance program	273,730	85,500
DEFERRED INCOME TAX (note 5)	<u>122,029</u>	<u>63,654</u>

Shareholders Equity

CAPITAL STOCK		
Authorized:		
1,000,000 common shares of no par value		
Issued:		
500,100 common shares	515,595	515,100
RETAINED EARNINGS	<u>253,550</u>	<u>130,045</u>
	<u>769,145</u>	<u>645,145</u>
	<u>\$1,576,437</u>	<u>\$1,009,961</u>

**G&B Automated
Equipment Limited** 
(Incorporated under the laws of Ontario)

Statement of Retained Earnings

For the year ended December 31, 1969 (with comparative figures for 1968)

	1969	1968
Balance at beginning of year	130,045	34,372
Net income for year	123,505	103,859
	<u>253,550</u>	<u>138,231</u>
Deduct: Dividends on preference shares		8,186
Retained earnings at end of year	<u>\$253,550</u>	<u>\$130,045</u>

Statement of Income


For the year ended December 31, 1969 (with comparative figures for 1968)

	1969	1968
Sales	1,086,107	960,548
Earnings before undernoted items	361,066	297,001
Remuneration of officers and directors	132,520	85,450
Depreciation expenses	19,997	7,863
Research and development amortized	26,669	36,175
	179,186	129,488
	181,880	167,513
Taxes on income	58,375	63,654
Net income for year	\$ 123,505	\$103,859
Earnings per share (based on 500,100 shares outstanding as at December 31, 1969)	24¢	20¢

Statement of Source and Application of Funds

For the year ended December 31, 1969 (with comparative figures for 1968)

	1969	1968
APPLICATION OF FUNDS		
Purchase of fixed assets	87,270	9,504
Research and development costs during year	427,117	190,947
Deferred development expenses	31,414	
Account receivable — long term	104,900	
Underwriting costs re sale of common shares		19,246
Organization costs — supplementary letters patent		842
Redemption of preferred shares		48,000
Dividend on preference shares		8,186
	<u>650,701</u>	<u>276,725</u>
SOURCE OF FUNDS		
From company operation		
Net income for year	123,505	103,859
Add: Depreciation expense	19,997	7,863
Research and development — amortized	26,669	36,175
	<u>46,666</u>	<u>44,038</u>
	<u>170,171</u>	<u>147,897</u>
Consideration from sale of common shares	495	515,000
Government of Canada — PAIT assistance program	188,230	85,500
Deferred income tax	58,375	63,654
	<u>417,271</u>	<u>812,051</u>
Decrease in working capital position	233,430	(535,326)
Working capital at beginning of year	<u>569,001</u>	<u>33,675</u>
Working capital at end of year	<u><u>335,571</u></u>	<u><u>569,001</u></u>

G&B Automated
Equipment Limited 

Notes to the balance sheet as at December 31, 1969 and to the statements of retained earnings, income and source and application of funds for the year ended on that date.

1. ACCOUNTS RECEIVABLE

During the year bad debts in the amount of \$12,384.53 were written off as uncollectable and provision for doubtful accounts has been provided to cover further possible losses amounting to \$2,232.70.

2. DUE FROM GOVERNMENT OF CANADA

- (a) The Company has conservatively estimated their claim for duty drawback from the Government of Canada — Customs and Excise Department at \$9,771.45 for the year ended December 31, 1969.
- (b) The Company has filed with the Department of Industry under their PAIT assistance program claims amounting to \$106,394.62 which amount remained unpaid at December 31, 1969.
- (c) The Company's claim for a grant under the Department of Industry — IRDIA program with respect to the year ended December 31, 1969 has been estimated at \$60,152.90. The Company received \$4,976.29 in excess of its prior year's estimate. As in previous years these non taxable grants have been included in income.

3. LONG TERM ACCOUNTS RECEIVABLE

Principal portion only of an interest bearing sales contract payable in semi-annual instalments over ten years.

4. RESEARCH AND DEVELOPMENT, UNAMORTIZED

Research and development costs incurred during the year represent the balance of costs to complete the Company's four station finishing machine and costs incurred in developing a billet grinder for the steel industry. Both of these programs have been developed in co-operation with the Government of Canada's PAIT assistance program. These costs are being written off as these machines are sold.

5. DEFERRED INCOME TAX

For purposes of statement presentation, income taxes have been calculated on reported earnings of the Company. Under provisions of the Income Tax Act unamortized research and development costs are available to reduce taxable income giving rise to this deferred tax credit.

6. LEASE COMMITMENTS

The Company's rental commitments for the next fourteen years involves the annual rental payment of \$25,700 (excluding tax and like expenses) at 580 Supertest Road, Downsview, Ontario.

7. INCENTIVE STOCK OPTION PLAN

The directors have approved an incentive stock option plan setting aside 25,000 common shares of treasury stock which may be granted at their discretion to any officer, director or employee of the Company at the prevailing market price less a discount of 10 percent, of which 100 shares were granted and paid during the year.

